

AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Genesee County Community Mental Health	County Genesee
Audit Date September 30, 2005	Opinion Date January 21, 2006	Date Accountant Report Submitted to State: March 31, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) Rehmann Robson			
Name Thomas Darling, CPA	City Troy	State MI	Zip 48098
Street Address 5750 New King Street, Suite 200			
Accountant Signature 			



**GENESEE COUNTY
COMMUNITY MENTAL
HEALTH SERVICES**

GENESEE COUNTY, MICHIGAN

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED
SEPTEMBER 30, 2005**

Genesee County Community Mental Health Services

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Genesee County Community Mental Health Services

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

January 21, 2006

The Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Genesee County Community Mental Health Services*** (the "Agency", a collection of funds of Genesee County, Michigan) as of and for the year ended September 30, 2005. These financial statements are the responsibility of the Genesee County Mental Health Service's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the financial statements present only the funds of Genesee County Community Mental Health Services and do not purport to, and do not present fairly the financial position of Genesee County, Michigan, as of September 30, 2005, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund, and the aggregate remaining fund information of Genesee County Community Mental Health Service as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof, and the budgetary comparison of the major fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2006, on our consideration of Genesee County Community Mental Health Service's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 and the Schedule of Funding Progress on page 32 are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Genesee County Community Mental Health Services financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

GENSEE COUNTY COMMUNITY MENTAL HEALTH AGENCY

Management's Discussion and Analysis

Fiscal Year October 1, 2004 – September 30, 2005

The Genesee County Community Mental Health Agency (GCCMH) (the “Agency”) provides or directs integrated mental health, and physical health service programs for persons with severe and persistent mental illness (SMI) and persons with developmental disabilities (DD). The agency has been a provider of services for nearly forty years. On October 1, 1998, GCCMH also became the designated Medicaid managed care administrator for Genesee County residents who are diagnosed SMI and/or DD. This unique dual responsibility has many challenges and benefits as the agency seeks to meet the independent regulatory obligations while presenting a seamless operation to our consumers and stakeholder.

The information provided within this Management's Discussion and Analysis is supplemental to the financial statements. It is not intended to replace the financial statements, nor does it provide contrary financial data. The analysis section of this summary will identify major issues of importance for anyone reviewing these financial statements.

FINANCIAL OVERVIEW

The financial structure of the Organization is based on fund accounting. Each fund represents the specific parameters within which financial decisions must be made. GCCMH had numerous grants with State funding that includes Medicaid, General Fund, MI Child, Substance Abuse and Adult Benefit Waiver. Each of the major funding separations includes restrictions and mandates as to how funds may be utilized in providing medically necessary services for the eligible populations.

GCCMH is allowed to maintain several Internal Service Funds. The first of those funds represents the reserves required by our state contract to ensure the availability of sufficient funds to cover necessary or mandated services when expenditures exceed revenues for a given fiscal year. The second fund is used to accumulate assets by charging funds for earned but unpaid employee compensated absences. And finally a post retiree health care fund is used to charge funds for actuarially determined health care obligation contributions. Within each fund, subsets of areas of responsibility are further delineated. This segregation of activities and objectives ensures and demonstrates compliance with financial requirements and regulatory restrictions.

The financial structure has also been designed to provide a financial presentation of the services provided by the Organization, including general outpatient services, state and community inpatient, licensed facilities, supported community living, substance abuse treatment and prevention, and special projects including both state and grant-supported activities.

Government-wide Financial Statements

The *Statement of Net Assets* presents the financial status of the Organization's assets and liabilities. It presents the long-term financial status of the Organization. The Organization has recorded capital assets subject to depreciation on the financial statements. Currently, the Organization has no debt.

The *Statement of Activities* presents the financial data that resulted in a change to the net assets. This report presents a long-term view of the revenue and expense transactions that occurred during the current fiscal year period. The total change to the net assets resulting from FY05 activities is \$5,383,979 . Of this

total \$923,303 , relates to Mental Health and the remaining represents interest earned and charges from the Internal Service Funds for Mental Health services. Major activities include adult services, children's services, developmentally disabled services, substance abuse, managed care and administrative services.

Fund Financial Statements

The *governmental funds financial statements* are intended to provide an overview of the Organization's major areas of services. Funds are separated to maintain the integrity of the reporting and to meet all funding and regulatory restrictions on the allowable expenditure of each funding source.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the financial data provided in all financial statements. These notes are integral to the statements and should be reviewed in conjunction with the information included in the statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Assets

Total assets for the Agency amounted to \$35,062,923 . Total liabilities were \$13,482,362 . Total net assets were \$21,580,561 . Net assets in the prior year were \$16,196,582 .

	Governmental Activities	
	2005	2004
Assets		
Current and other assets	\$ 34,547,430	\$ 28,396,622
Capital assets, net	515,493	429,489
Total assets	35,062,923	28,826,111
Liabilities		
Payables and accrued liabilities	11,633,348	9,985,035
Unearned revenues	1,849,014	2,644,494
Total liabilities	13,482,362	12,629,529
Net assets:		
Invested in capital assets,	515,493	429,489
Restricted assets	17,912,441	13,451,764
Unrestricted	3,152,627	2,315,329
Net assets	\$ 21,580,561	\$ 16,196,582

Statement of Activities

The *Statement of Activities* lists the major areas and sub-areas of services provided by the GCCMH.

Services provided at or on behalf of GCCMH can be segregated into three main categories. First the largest expense category with in the GCCMH budget is services provided in residential settings (Adult Foster Care homes). The second largest expense category is Acute Care services (treatment facilities such as hospitals, crisis residential and State facilities). And third, the remainder of services falls within our community and home based out patient programs.

By far, the greatest revenue source is the contract with the Michigan Department of Community Health, which includes Medicaid, Adult Benefit Waiver and General Funds, with the largest revenue source being Medicaid funding through special waiver provisions granted by the Federal Centers for Medicare and Medicaid Services. Other revenue sources include local funding from Genesee County, as well as an income from fees, collections, and grants.

The net assets of the Organization increased by a combined total of \$5,383,979 , resulting in total net assets of \$21,580,561 .

	Governmental Activities	
	2005	2004
Revenue:		
Program revenues:		
Charges for services	\$ 2,950,734	\$ 981,972
Operating grants and contributions	1,643,220	2,243,280
General revenues:		
Medicaid	70,424,276	63,505,610
State General Funds	20,692,895	22,570,521
Substance abuse	2,064,808	1,878,006
County matching funds	2,480,163	2,476,429
Other unrestricted grants and contributions	312,019	447,902
Gain from sale of capital assets	18,817	-
Unrestricted investment earnings	342,562	46,267
Total revenues	100,929,494	94,149,987
Expenses:		
Administration	10,785,141	8,096,988
Managed care	4,358,379	3,515,574
Adult service	29,588,572	31,495,163
Children's services	3,111,364	2,641,751
Developmentally disabled	45,637,251	39,762,954
Substance abuse	2,064,808	1,925,015
Total expenses	95,545,515	87,437,445
Change in net assets	5,383,979	6,712,542
Net assets, beginning of the year	16,196,582	9,484,040
Net assets, end of year	\$ 21,580,561	\$ 16,196,582

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

Balance Sheet – Governmental Funds

The *Balance Sheet for Governmental Funds* provides financial data for the major fund (Mental Health). The Internal Service Fund (ISF) data is not included here. Not including the ISF, the total assets, liabilities, and net assets are as follows:

	<u>Mental Health Fund</u>
Total assets	\$ 15,378,796
Total liabilities	12,226,167
Fund Balance	<u>\$ 3,152,629</u>

Statement of Revenue, Expenditures, and Changes in Fund Balance—Governmental Funds

Again, the Governmental statements provide financial data relating to the Mental Health and do not include the Internal Service Funds.

Mental Health revenues exceeded expenditures (after deferring the carry forward amounts) by \$317,397 , before other financing sources of \$519,904 . The increase is primarily due the results of operations related to the Adult Benefit Waiver in the amount of \$560,437 and PA423 funds in the amount of \$428,784 .

The total amount of the unreserved fund balance is 2.63% of the Fiscal Year 2005 total budgeted expenditures for Mental Health and Substance Abuse services. Factoring in the Medicaid and General Fund carry forward amounts reported as deferred revenue, total available reserves amounted to 4.48% of budgeted expenditures. This amount, while not at the level preferred by the similar organizations in the private sector (7-10%), does provide some financial protection. The majority of revenue is derived from State contracts and is highly dependent on the state of the State's budget.

Budgetary Highlight

The budget for any particular fiscal year is developed several months prior to notification of funding levels. The GCCMH Board reviews and approves a budget in September for an October 1 start date. Development of the annual budget begins in June, four months prior to its implementation. The funding levels from the State are often not received until after the start of a fiscal year. Especially during times of economic stress, these amounts are subject to change multiple times during the fiscal year.

The differences between the original and final budget illustrate this uncertainty of funding, especially given the time frame for implementing the budget for the start of the fiscal year. Ultimately, as indicated above, there were carry forward funds that may be applied to the following year's decisions about service levels. The amounts under budget during this fiscal year reflect the carry forward amounts discussed earlier.

Capital Assets

The Agency investment in capital assets for its governmental activities as of September 30, 2005 amounted to \$515,493 (net of accumulated depreciation). This investment in capital assets includes vehicles and equipment. The total increase in the Agency's investment in capital assets for the current fiscal year was \$ 86,003 or 20%.

Factors Impacting the Future

The greatest impact to the Organization's future standing is the contract with the Michigan Department of Community Health. The funding levels from the State are in turn severely impacted by the State of Michigan's economy, potential Executive Order reductions issued by the Governor, and the approval of waiver provisions by the Centers of Medicare and Medicaid Services.

As of April 1, 2006, Community Mental Health (CMH) will also assume the responsibility of managing the Substance Abuse Service Network for Genesee County. This change will result in additional revenue of approximately \$7,000,000 of state and local funds.

Medicaid funding is dependant on the number of persons that meet Medicaid criteria. That number has risen in the past year, resulting in increased costs to the Medicaid system.

As stated earlier, the ability to carry forward up to the five percent (5%) of Medicaid and State General Funds does allow management to smooth out the changes in revenues and maintain medically necessary services to our identified populations.

One further restriction challenging our ability to manage medically necessary services is the inability to interchange funds among the consumer groups. Thus, Medicaid funding may not be utilized for services to non-Medicaid consumers.

Requests for Information

This financial report is designed to provide a general overview of the finances of the Genesee County Community Mental Health Agency (a fund of Genesee County). Questions concerning this information may be directed to Jeffery Delay, Vice President of Business Operations, Genesee County Community Mental Health, 420 West Fifth Street, Flint, Michigan 48503.

FINANCIAL STATEMENTS

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Net Assets September 30, 2005

	Governmental Activities
<hr/>	
Assets	
Cash and cash equivalents	\$ 19,562,660
Investments	12,289,527
Receivables:	
Accounts receivable	2,011,707
Prepays and other assets	683,536
Undepreciable capital assets	119,255
Depreciable capital assets	396,238
	<hr/>
Total assets	35,062,923
	<hr/>
Liabilities	
Accounts payable and accrued liabilities	11,610,121
Due to other County funds	23,227
Unearned revenue	1,849,014
	<hr/>
Total liabilities	13,482,362
	<hr/>
Net assets	
Invested in capital assets	515,493
Restricted for:	
Contract losses	5,345,629
Employee benefits	12,566,812
Unrestricted	3,152,627
	<hr/>
Total net assets	\$ 21,580,561
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

Statement of Activities For the Year Ended September 30, 2005

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:				
Board administration	\$ 10,785,141	\$ -	\$ -	\$ (10,785,141)
Managed care	4,358,379	144,230	-	(4,214,149)
Adult services	29,588,572	2,558,237	1,293,512	(25,736,823)
Children's services	3,111,364	70,752	349,708	(2,690,904)
Developmentally disabled services	45,637,251	177,515	-	(45,459,736)
Substance abuse services	2,064,808	-	-	(2,064,808)
Total governmental activities	<u>\$ 95,545,515</u>	<u>\$ 2,950,734</u>	<u>\$ 1,643,220</u>	<u>(90,951,561)</u>
General revenues:				
MDCH Contract:				
Medicaid				70,424,276
General Fund				20,692,895
Substance Abuse				2,064,808
County matching funds				2,480,163
Unrestricted investment earnings				342,562
Gain from sale of capital assets				18,817
Other unrestricted grants and contributions				<u>312,019</u>
Total general revenues				<u>96,335,540</u>
Change in net assets				5,383,979
Net assets, beginning of year, as restated				16,196,582
Net assets, end of year				<u>\$ 21,580,561</u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

**Balance Sheet
Governmental Funds
September 30, 2005**

	Mental Health
Assets	
Cash and cash equivalents	\$ 12,589,684
Receivables:	
Due from the Michigan Department of Community Health	1,359,277
Due from other agencies and governments	378,552
Other receivables	38,822
Due from risk reserve fund	501,087
Prepays	511,374
Total assets	\$ 15,378,796
Liabilities	
Accounts payable	\$ 5,890,078
Accrued liabilities	3,042,452
Due to the Michigan Department of Community Health	1,421,396
Due to other County funds	23,227
Deferred revenue	1,849,014
Total liabilities	12,226,167
Fund balance	
Reserved:	
Prepays	511,374
Unreserved, undesignated	2,641,255
Total fund balance	3,152,629
Total liabilities and fund balance	\$ 15,378,796

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
**Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
September 30, 2005**

Fund balances - total governmental funds	\$ 3,152,629
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	1,381,110
Deduct: accumulated depreciation	(865,619)

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods and for employee benefits. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	<u>17,912,441</u>
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Net assets of governmental activities	<u><u>\$ 21,580,561</u></u>
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The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
**Statement of Revenue, Expenditures,
and Changes in Fund Balance**
Governmental Funds
For the Year Ended September 30, 2005

	Mental Health
Revenue	
Federal sources:	
Medicaid	\$ 72,489,084
Federal grants	1,422,983
State sources:	
State general fund indigent	20,692,895
State grants	260,718
Local sources:	
County appropriations	2,480,163
Charges for services	2,521,950
PA 423 funding	428,784
Local grants and contributions	6,619
Other revenue	264,957
Total revenue	<u>100,568,153</u>
Expenditures	
Mental health services:	
Board administration	11,687,384
Managed care	5,005,067
Adult services	31,159,100
Children's services	3,634,730
Developmentally disabled	46,699,667
Substance abuse services	2,064,808
Total expenditures	<u>100,250,756</u>
Excess of revenues over expenditures	317,397
Other Financing Sources	
Transfers in	501,087
Proceeds from sale of capital assets	18,817
Total other financing sources	<u>519,904</u>
Net change in fund balance	837,301
Fund balance, beginning of year	<u>2,315,328</u>
Fund balance, end of year	<u><u>\$ 3,152,629</u></u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Fund
to the Statement of Activities**
For the Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$ 837,301
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	153,830
Deduct: depreciation expense	(67,827)

Internal service funds are used by management to set aside certain resources as a risk reserve against potential contract losses in future periods, employee health care and accrued compensated absences. The net revenue (expense) of those funds are reported with governmental activities.

Add: net operating income from internal service funds	4,619,201
Add: other nonoperating revenue from internal service funds	342,561
Less: transfers from internal service funds	<u>(501,087)</u>

Change in net assets of governmental activities	<u><u>\$ 5,383,979</u></u>
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The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
**Statement of Revenue, Expenditures,
and Changes in Fund Balance - Budget and Actual**
Mental Health Fund
For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenue				
Federal sources:				
Medicaid	\$ 72,309,828	\$ 72,412,189	\$ 72,489,084	\$ 76,895
Federal grants	1,552,092	1,552,092	1,422,983	(129,109)
State sources:				
State general fund indigent	19,872,949	20,450,898	20,692,895	241,997
State grants	251,256	251,256	260,718	9,462
Local sources:				
County appropriations	2,685,498	2,385,498	2,480,163	94,665
Charges for services	3,558,715	3,165,304	2,521,950	(643,354)
PA 423 funding	588,000	796,000	428,784	(367,216)
Local grants and contributions	70,000	70,000	6,619	(63,381)
Other revenue	273,770	276,020	264,957	(11,063)
Total revenue	<u>101,162,108</u>	<u>101,359,257</u>	<u>100,568,153</u>	<u>(791,104)</u>
Expenditures				
Mental health services:				
Board administration	13,409,877	11,191,252	11,687,384	(496,132)
Managed care	5,518,144	5,518,144	5,005,067	513,077
Adult services	35,324,767	35,778,259	31,159,100	4,619,159
Children's services	3,999,870	4,006,370	3,634,730	371,640
Developmentally disabled	42,052,045	42,847,460	46,699,667	(3,852,207)
Substance abuse services	1,936,411	1,936,411	2,064,808	(128,397)
Total expenditures	<u>102,241,114</u>	<u>101,277,896</u>	<u>100,250,756</u>	<u>1,027,140</u>
Other Financing Sources				
Transfers in	-	-	501,087	501,087
Proceeds from sale of capital assets	15,000	21,000	18,817	(2,183)
Total other financing sources	<u>15,000</u>	<u>21,000</u>	<u>519,904</u>	<u>498,904</u>
Net changes in fund balances	(1,064,006)	102,361	837,301	734,940
Fund balance, beginning of year	-	-	2,315,328	2,315,328
Fund balance (Deficit), end of year	<u>\$ (1,064,006)</u>	<u>\$ 102,361</u>	<u>\$ 3,152,629</u>	<u>\$ 3,050,268</u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Statement of Net Assets

Proprietary Funds

September 30, 2005

	Internal Service Funds
	<hr/>
Assets	
Cash and cash equivalents	\$ 6,972,976
Investments	12,289,527
Interest receivable	235,056
Prepaid expenses	<hr/> 172,162
 Total assets, all current	 <hr/> 19,669,721
 Current liabilities	
Accounts payable	11,774
Accrued liabilities	1,244,419
Due to mental health fund	<hr/> 501,087
 Total current liabilities	 <hr/> 1,757,280
 Net assets	
Unrestricted	 <hr/> <hr/> \$ 17,912,441

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
**Statement of Revenue, Expenses,
and Changes in Fund Net Assets**
Proprietary Funds
For the Year Ended September 30, 2005

	Internal Service Funds
Operating revenue	
Charges for services	\$ 6,688,034
Expenses	
Employee benefits	<u>2,068,833</u>
Net operating income	<u>4,619,201</u>
Nonoperating revenue	
Interest revenue	<u>342,562</u>
Income before transfers	4,961,763
Transfers out	<u>(501,087)</u>
Change in net assets	4,460,676
Net assets, beginning of year	<u>13,451,765</u>
Net assets, end of year	<u><u>\$ 17,912,441</u></u>

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2005**

	Internal Service Funds
Cash flows from operating activities	
Cash received from interfund services	\$ 6,688,034
Payments to suppliers	(2,229,221)
Payments to employees	56,008
Net cash provided by operating activities	<u>4,514,821</u>
Cash flows from investing activities	
Proceeds from sale of investments	-
Purchase of investments	(3,077,473)
Interest received	172,813
Net cash provided by investing activities	<u>(2,904,660)</u>
Increase in cash and cash equivalents	1,610,161
Cash and cash equivalents, beginning of year	<u>5,362,815</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,972,976</u></u>
Reconciliation of operating income to net cash used in operating activities	
Operating income	\$ 4,619,201
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Prepays	(172,162)
Payables	11,774
Accrued liabilities	56,008
Net cash provided by operating activities	<u><u>\$ 4,514,821</u></u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

The accompanying notes are an integral part of these financial statements.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
Statement of Fiduciary Net Assets - Agency Funds
September 30, 2005

Assets

Cash and cash equivalents	\$ 358,807
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Liabilities

Accrued liabilities	\$ 358,807
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The accompanying notes are an integral part of these financial statements.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Genesee County Community Mental Health Services (GCCMHS) (the “Agency”), a fund of Genesee County, Michigan, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency’s accounting policies are described below.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Agency. The Agency is considered a collection of funds of Genesee County, Michigan’s governmental operation and is an integral part of that reporting entity. The Agency is not a component unit of Genesee County, Michigan or any other reporting entity, defined by GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. However, the Agency Funds do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Intergovernmental revenues are accrued when earned.

Service charges to first and third party payor and grant funds associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Agency reports the following major governmental fund:

The Mental Health special revenue fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund.

Additionally, the Agency reports the following fund types:

The internal service funds are used to account for and finance potential uninsured risks of loss related to various funding received through the Michigan Department of Community Health (MDCH), as well as for accounting for and financing post-employment health benefits and other selected retirement costs and employee benefits.

The Agency funds are used to account for assets held on behalf of the Agency's consumers in which the Agency acts only in a fiduciary capacity.

Information has been provided in the notes to these financial statements and in a required supplementary information section to the financial statements in regards to the Agency's funded share of Genesee County's defined benefit pension plan. However, due to the pooled nature of the plan for all County pension trust transactions, a separate pension trust fund for the Agency is undeterminable and accordingly is not provided.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service funds are charges to other funds for services provided. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. All investments are recorded at fair value.

Statutory Authority

State statutes authorize the Agency to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The agency's investment policy allows for all of these types of investments

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

2. *Accounts Receivable*

Accounts receivable are shown net of an allowance for uncollectibles. Consumer accounts receivable and revenue are recorded when services are performed. A substantial portion of the Agency's receivables from services to consumers is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Agency is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Agency is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement.

3. *Interfund Receivables/Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

4. *Prepayments*

Payments made to vendors for services that will benefit periods beyond September 30, 2005, are recorded as "prepaids" in the accompanying statement of net assets.

5. *Capital Assets*

Capital assets, which include property, plant and equipment are reported in the governmental activities columns in the government – wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Agency are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Vehicles and equipment	5-30

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

6. *Contract with Michigan Department of Community Health*

The Agency has several account balances that relate to the Agency's contract with the Michigan Department of Community Health (MDCH). The amount reported as "Due from Michigan Department of Community Health" largely represents a receivable from the various grantor agencies for services provided under the contract for the year ended September 30, 2005. "Due to Michigan Department of Community Health" reflects amounts due to the State for clients of the Agency placed in state institutions, amounts owed back to the State as the result of the year end cost settlement, and amounts owed back to the State for the State general fund risk reserve.

7. *Compensated Absences*

The Agency provides four types of compensated absences – vacation, sick, personal and compensatory time. Vested or accumulated vacation leave and other compensated absences, for retirees and terminated employees, that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Agency employees are granted vacation, sick leave and other compensated absences in varying amounts based on length of service. Pay for compensated absences is accrued and fully vested when earned. Any amounts vested and not yet paid to employees are transferred to the Internal Service Fund where they are held until paid.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted in accordance with Michigan Law for the Agency's Special Revenue Funds. The budget is adopted on a basis consistent with GAAP and with the requirements of the Michigan Department of Community Health. Budget amounts are presented as amended by the Board of Directors. Amounts over budget at the legal level of control are presented on the Statements of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual for each major governmental fund.

B. Excess of expenditures over appropriations

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of September 30, 2005:

Statement of Net Assets	
Cash and cash equivalents	\$ 19,562,660
Investments	12,289,527
Statement of Fiduciary Net Assets	
Cash and cash equivalents	358,807
Total	<u><u>\$ 32,210,994</u></u>
Deposits and Investments	
Bank deposits (checking and savings accounts)	\$ 19,917,815
Investments in U.S. governmental securities or its agencies	12,289,529
Cash on hand	3,650
Total	<u><u>\$ 32,210,994</u></u>

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of State law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. All investments mature within one year of the balance sheet date.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of state law on investment credit risk. The investments in U.S. governmental securities or its agencies as noted above have the highest rating awarded by the national rating agencies.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned. State law does not require and the Agency does not have a policy for deposit custodial credit risk. The Agency has chosen to participate in Genesee County's investment pool, which is managed by the County Treasurer. These funds are

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

deposited in the Treasurer's pooled accounts, and are deposited by and in the name of the County Treasurer. Other County funds are also deposited in those accounts and, as such, because of the complexities of FDIC regulation No. 330.8, it is not possible to readily determine the amount of insurance that would be allocated to the Agency's deposits.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the Agency does not have a policy for investment custodial credit risk.. Of the above \$12,289,529 in investments the Agency has a custodial credit risk exposure of \$12,289,529 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the summary of significant accounting policies. The Agency's investment policy does not have specific limits in excess of State law on concentration of credit risk. More than 5 percent of the Agency's investments are in U.S. governmental securities or its agencies. All investments held at year-end are reported above.

B. Other Receivables

Other receivables consist primarily of billings to residential care providers for prior year cost settlements in addition to Patient Fees, Medicaid Title 19, Medicare and other 3rd party insurers totaling \$122,764 less an allowance for doubtful accounts of \$83,942 for a net amount of \$38,822.

C. Capital Assets

Capital assets activity for the year ended September 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Construction in Progress	\$ -	\$ 119,255	\$ -	\$ 119,255
Capital assets being depreciated				
Vehicles and equipment	1,227,280	34,575	-	1,261,855
Less accumulated depreciation				
Vehicles and equipment	<u>(797,790)</u>	<u>(67,827)</u>	<u>-</u>	<u>(865,617)</u>
Total net capital assets	<u>\$ 429,490</u>	<u>\$ 86,003</u>	<u>\$ -</u>	<u>\$ 515,493</u>

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
Administration	\$ 50,688
Adult Services	5,221
Child Services	1,413
Disability Development	<u>10,505</u>
Total depreciation expense - governmental activities	\$ <u>67,827</u>

D. Due To State

For the year ended September 30, 2005, the operations of the Agency were conducted under the terms and conditions of its contract with the Michigan Department of Community Health (MDCH). \$128,170 of the amount due to the State represents the balance owed to the MDCH for excess Medicaid and State funded managed care proceeds that were not expended in the current year.

E. Operating Leases

The Agency has entered into an agreement to lease the main office building. The agreement commenced in October 2004, whereby rent is charged at \$30,000 per month. The agreement is for a period of one (1) year, whereby after the one year is completed, if the Agency continues the use of the building, the lease shall be on a month by month basis with the same terms and conditions as in the original lease agreement. The Agency has also entered into agreements to various leases for group homes, vehicles and equipment. Many of these leases are charged to the provider and payable to either the State of Michigan or to Genesee County and therefore are not included in the schedule below due to the pass-through nature of the transactions. Net rental expenses (net of pass-through transactions) amounted to \$654,251 for the year ended September 30, 2005.

Future minimum rental commitments for leases that have remaining terms in excess of one year at September 30, 2005, are as follows:

Fiscal Year Ending <u>September 30</u>	<u>Amount</u>
2006	\$ 23,252
2007	23,252
2008	<u>23,252</u>
Total	\$ <u>69,756</u>

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

IV. OTHER INFORMATION

A. Risk Management

The Agency is exposed to various risks of loss related to property loss, torts, errors and omissions, malpractice and employee injuries. The Agency has purchased commercial insurance for these claims. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years. The Agency also participates in the Genesee County self-insurance program for automobile insurance. The Agency does not retain any risk through participation in this program. The Agency is self-funded for dental insurance subject to stop loss insurance limits so that the maximum amount of loss is fixed at a predetermined amount. This amount is provided in the Agency's annual budget.

The self-insurance program for dental insurance is accounted for in the Mental Health Fund. An independent administrator (Delta Dental) is hired to process the daily claims and to perform management duties. Benefits under the program are capped at \$1,000 for routine dental and \$1,400 for orthodontic procedures per covered person annually. There were no reductions of insurance coverage from the prior year. Settled claims have not exceeded insurance coverage in any of the past three years.

<u>Fiscal Year</u>	<u>Beginning of Period Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claims Paid</u>	<u>End of Period Liability</u>
2005	\$ -	\$ 437,022	\$ 437,022	\$ -
2004	\$ -	\$ 439,359	\$ 439,359	\$ -

B. Defined Benefit Pension Plan

Plan Description

The Agency participates in a contributory multi-employer, defined benefit pension plan (the Genesee County Employees Retirement System or GCERS). GCERS was organized pursuant to Section 12A of Act 156, Public Acts of 1851 (MSA 5.333(1); MCLA 46.12a) as amended. The GCERS is regulated under the Genesee County Employees' Retirement System Ordinance, the sections of which have been approved by the state pension commission and is administered by the Genesee County Retirement Commission. The GCERS was established in 1946, beginning with the General Unit and the County Road Commission. Water and Waste joined the system in 1956, Community Mental Health in 1966, City of Mt. Morris in 1969, and the Genesee District Library in 1980. GCERS issues a stand-alone financial report; a copy of this report may be obtained by contracting the retirement office.

Currently, all Agency employees participate in the plan including non-union, AFSCME union, Teamsters union, as well as the director and program chief employees. Membership

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

in the plan at December 31, 2004, the date of the latest actuarial valuation, is comprised of 364 active members, 46 inactive members, and 172 retirees and beneficiaries. Participants may elect normal retirement after 23 years of service regardless of age or age 60 with 8 years of service. Non-union, program chiefs, and director participants hired before February 9, 1989 and Teamsters and AFSCME participants, are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% of years of service in excess of 25 years up to a maximum of 65% of employer financed final average compensation. Non-union participants hired after February 9, 1989 are entitled to a retirement benefit equal to the final average compensation multiplied by the sum of 2.4% for the first 25 years of service plus 1.0% for years of service in excess of 25 years up to maximum of 60% of employer financed final average compensation. Participants hired before February 9, 1989 are vested after 8 years of service and those hired after February 9, 1989 are vested after 15 years of service.

Funding Policy

The Agency is required to contribute at an actuarially determined rate; the current rate of annual covered payroll is 11.47% for all employees. Employees are required to contribute .5% to 10.74% of all monetary compensation. Contributions are accumulated in individual accounts for each member remaining in service. If a member leaves service, they may withdraw their accumulated contribution along with the interest earned on their balance.

Annual Pension Cost

For the year ended September 30, 2005, the Agency's annual pension cost of \$1,858,943 for GCERS was equal to the Agency's required and actual contributions. The required contribution was determined as part of the Agency's December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increases of 5 % per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 5% to 9.03% per year, depending on age, attributable to seniority/merit. The actuarial value of GCERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Agency's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2004, the date of the latest actuarial valuation, was 10 years.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
9/30/03	\$ 1,514,338	100%	\$ 0
9/30/04	1,554,239	100%	0
9/30/05	1,858,943	100%	0

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

C. Defined Contribution Pension Plan

In 2000, the Agency authorized that new retirees may elect to transfer the actuarial present value of the participants accrued benefit under the defined benefit plan to an account within the Genesee County Defined Contribution Pension Plan. Since this is only an option to retirees, no employer or employee contribution can be made.

D. Postemployment Health Benefits

The Agency provides postemployment health, dental and life insurance benefits to employees that participate in GCERS. Currently 201 retirees are eligible. Expenditures for postemployment benefits are recognized as insurance premiums when they become due. For the current fiscal year these amounted to \$1,929,143 for health, \$136,580 for dental and \$3,110 for life insurance. In addition, the Agency transferred \$6,688,034 into the Retiree Health Care Internal Service Fund per the actuarial report dated June 30, 2003.

E. Risk Reserve Fund Net Assets

Net assets in the Risk Reserve Internal Service Fund are restricted for future shortfalls between revenue and expenses.

Following is a schedule of changes in net assets of the Risk Reserve Internal Service Fund:

	<u>Medicaid</u>	<u>State General</u>	<u>Local</u>	<u>Total</u>
Beginning balance	\$ 3,839,617	\$ 1,541,465	\$ 322,772	\$ 5,703,854
Additions	98,023	36,805	8,034	142,862
Deletions		(461,052)	(40,035)	(501,087)
Ending balance	<u>\$ 3,937,640</u>	<u>\$ 1,117,218</u>	<u>\$ 290,771</u>	<u>\$ 5,345,629</u>

F. MDCH Revenue

The Agency provides mental health services on behalf of the Michigan Department of Community Health (MDCH) in accordance with a managed specialty supports and services contract (the "contract"). Under the contract, the Agency receives monthly capitation payments based on the number of the MDCH's participants, regardless of services actually performed by the Agency. In addition, the MDCH makes fee-for-service payments to the Agency for certain covered services.

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

H. Unreserved, Undesignated Fund Balance

Unreserved, undesignated fund balance for the Mental Health special revenue fund is comprised of the following funding source elements:

	Beginning Balance	Additions	Deletions	Ending Balance
Adult benefit waiver funds	\$ 1,265,023	\$ 560,437	\$ -	\$ 1,825,460
Public Act 423 funds	300,154	428,784	-	728,938
Other funds	21,302	86,857	(21,302)	86,857
Total	<u>\$ 1,586,479</u>	<u>\$ 1,076,078</u>	<u>\$ (21,302)</u>	<u>\$ 2,641,255</u>

E. Interfund receivables, payables, and transfers

The composition of interfund balances as of September 30, 2005 is as follows:

Due to / from other funds:

<u>Receivable Fund:</u>	<u>Payable Fund</u>	<u>Amount</u>
Mental Health	Risk reserve	\$ 501,087
Other County	Mental Health	<u>23,227</u>
Total		<u>524,314</u>

The outstanding balances between funds result mainly from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recoded in the accounting system, and payments between funds are made.

Interfund Transfers:

<u>Transfer out:</u>	<u>Transfer in:</u>
Risk reserve fund	Mental health fund
	<u>501,087</u>
Total	<u>501,087</u>

REQUIRED SUPPLEMENTARY INFORMATION

GENESEE COUNTY COMMUNITY MENTAL HEALTH SERVICES

NOTES TO FINANCIAL STATEMENTS

Transfers are used to move unrestricted Risk Reserve Funds to finance eligible expenditures in the Mental Health Fund.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/01	\$66,059,000	\$ 64,666,000	\$(1,393,000)	102.2%	\$18,718,641	(7.4%)
12/31/02	64,240,420	67,608,297	(3,367,877)	95.0%	19,575,458	(17.2%)
12/31/03	62,858,695	68,477,572	(5,618,877)	91.8%	18,337,810	(30.6%)
12/31/04	62,746,150	73,406,354	(10,660,204)	85.5%	17,976,431	(59.3%)

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Combining Statement of Net Assets

Internal Service Funds

September 30, 2005

	<u>Employee Benefits</u>	<u>Retiree Health Care</u>	<u>Risk Reserve</u>	<u>Total</u>
Assets				
Cash and cash equivalents	\$ 67,102	\$ 6,905,874	\$ -	\$ 6,972,976
Investments	1,199,790	5,373,368	5,716,369	12,289,527
Interest receivable	16,624	88,085	130,347	235,056
Prepaid expenses	<u>-</u>	<u>172,162</u>	<u>-</u>	<u>172,162</u>
Total assets, all current	<u>1,283,516</u>	<u>12,539,489</u>	<u>5,846,716</u>	<u>19,669,721</u>
Current Liabilities				
Accounts payable	-	11,774	-	11,774
Accrued liabilities	1,244,419	-	-	1,244,419
Due to mental health fund	<u>-</u>	<u>-</u>	<u>501,087</u>	<u>501,087</u>
Total current liabilities	<u>1,244,419</u>	<u>11,774</u>	<u>501,087</u>	<u>1,757,280</u>
Net assets				
Unrestricted	<u>\$ 39,097</u>	<u>\$ 12,527,715</u>	<u>\$ 5,345,629</u>	<u>\$ 17,912,441</u>

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Internal Service Funds
For the Year Ended September 30, 2005

	Employee Benefits	Retiree Health Care	Risk Reserve	Total
Operating revenue				
Charges for services	\$ -	\$ 6,688,034	\$ -	\$ 6,688,034
Expenses				
Employee benefits	-	2,068,833	-	2,068,833
Net operating income	-	4,619,201	-	4,619,201
Non-operating revenue				
Interest revenue	39,097	160,603	142,862	342,562
Income before transfers	39,097	4,779,804	142,862	4,961,763
Transfers out	-	-	(501,087)	(501,087)
Change in net assets	39,097	4,779,804	(358,225)	4,460,676
Net assets, beginning of year	-	7,747,911	5,703,854	13,451,765
Net assets, end of year	\$ 39,097	\$ 12,527,715	\$ 5,345,629	\$ 17,912,441

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended September 30, 2005**

	<u>Employee Benefits</u>	<u>Retiree Health Care</u>	<u>Risk Reserve</u>	<u>Total</u>
Cash flows from operating activities				
Cash received from interfund services	\$ -	\$ 6,688,034	\$ -	\$ 6,688,034
Payments to suppliers	-	(2,229,221)	-	(2,229,221)
Payments to employees	56,008	-	-	56,008
Net cash provided by (used in) operating activities	56,008	4,458,813	-	4,514,821
Cash flows from investing activities				
Purchase of investments	(11,379)	(2,975,687)	(90,407)	(3,077,473)
Interest received	22,473	72,519	77,821	172,813
Net cash provided by (used in) investing activities	11,094	(2,903,168)	(12,586)	(2,904,660)
Increase (decrease) in cash and cash equivalents	67,102	1,555,645	(12,586)	1,610,161
Cash and cash equivalents, beginning of year	-	5,350,229	12,586	5,362,815
Cash and cash equivalents, end of year	<u>\$ 67,102</u>	<u>\$ 6,905,874</u>	<u>\$ -</u>	<u>\$ 6,972,976</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ -	\$ 4,619,201	\$ -	\$ 4,619,201
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Changes in assets and liabilities:				
Prepays		(172,162)		(172,162)
Payables		11,774		11,774
Accrued liabilities	56,008	-	-	56,008
Net cash provided by (used in) operating activities	<u>\$ 56,008</u>	<u>\$ 4,458,813</u>	<u>\$ -</u>	<u>\$ 4,514,821</u>

Non-Cash Transactions:

There were no significant non-cash investing or financing activities during the year.

**GENESEE COUNTY COMMUNITY
MENTAL HEALTH SERVICES**

Combining Balance Sheet

Fiduciary Fund Types - Agency Funds

September 30, 2005

	Client Activity Fund	Representative Payee Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	<u>\$ 18,953</u>	<u>\$ 339,854</u>	<u>\$ 358,807</u>
Liabilities			
Accrued liabilities	<u>\$ 18,953</u>	<u>\$ 339,854</u>	<u>\$ 358,807</u>

SINGLE AUDIT SECTION



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

January 21, 2006

The Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

We have audited the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of ***Genesee County Community Mental Health Services*** (the "Agency", a collection of funds of Genesee County, Michigan), as of and for the year ended September 30, 2005, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated January 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Genesee County Community Mental Health Service's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Genesee County Community Mental Health Services in a separate letter dated January 21, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Genesee County Community Mental Health Service's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Genesee County Community Mental Health Service Board, management, others in the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

January 21, 2006

The Board of Directors
Genesee County Community Mental Health Services
Flint, Michigan

Compliance

We have audited the compliance of *Genesee County Community Mental Health Service* with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2005. Genesee County Community Mental Health Service's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of Genesee County Community Mental Health Service's management. Our responsibility is to express an opinion on Genesee County Community Mental Health Service's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Genesee County Community Mental Health Service's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Genesee County Community Mental Health Service's compliance with those requirements.

In our opinion, Genesee County Community Mental Health Service complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2005-1.

Internal Control Over Compliance

The management of Genesee County Community Mental Health Service is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Genesee County Community Mental Health Service's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Genesee County Community Mental Health Service Board, management, others in the Agency, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Genesee County Community Mental Health Service

Notes to Schedule of Expenditures of Federal Awards

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Genesee County Community Mental Health Service and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

* * * * *

Genesee County Community Mental Health Service

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified

not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified

not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

 X yes _____ no

Identification of major programs:

CFDA Number(s)

14.235

Name of Federal Program or Cluster

Supportive Housing

Auditee qualified as low-risk auditee?

 X yes _____ no

Genesee County Community Mental Health Service

Schedule of Findings and Questioned Costs (Concluded)

For the Year Ended September 30, 2005

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2005-1 Supportive Housing Program – CFDA No. 14.235

Statement of Conditions: During our audit procedures we noted that in some cases required signatures of either or both of the case administrator or the consumer were not evident on the housing contract.

Criteria: The housing contract requires both the signature of the case administrator and the consumer.

Effect of Condition: The lack of an approved signature may be deemed a questioned cost and therefore the cost of services may be disallowed.

Cause of Condition: The lack of effective monitoring of established controls to insure the compliance of proper signature guidelines.

Recommendation: To increase awareness of the importance of following established guidelines as it relates to the design and operation of programs funded by federal awards.

Response: Management will increase awareness of the importance of following established guidelines as it relates to the design and operation of programs funded by federal awards.

SECTION IV – PRIOR YEAR FINDINGS

2004-1

Statement of Condition: During our audit procedures we noted that full-time employees were not certified on a semi-annual basis per requirements under OMB Circular A-87 attachment B section 8(h)(3). Further procedures indicate that employees assigned to the federal program do incur 100% of their time on the program resulting in no questioned costs.

Follow-Up: During our follow up procedures we noted that the Agency has established a policy requiring semi-annual certifications by employees or the employee's immediate supervisor who incur 100% of their time on a specific federal program.

* * * * *